The Msunduzi Municipality

Budget

2009/2010

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(Compliant with Local Government: Municipal Finance Management Act,2003 Municipal Budget and Reporting Regulations)

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PART 1 – ANNUAL BUDGET

2009/2010 BUDGET SPEECH BY THE MAYOR

Mister Speaker
Honourable Deputy Mayor
Honourable Councillors
Honourable Amakhosi
Distinguished guests, community leaders and business leaders
Comrades, friends, ladies and gentlemen

Preamble

As the democratic government came into power, it resolved to change the economic and social conditions of this country. To that end it resolved to improve the lives of the poor not only in supplying them with sustenance but also by changing their living conditions. During the last 15 plus years we have been committed in all spheres of government – from national to local to intensify the struggle against poverty. This budget is drawn up with the challenges, in mind, that the Municipality faces. It seeks a healthy balance between developing the previously disadvantaged areas and maintaining the Central Business District and the surrounding environment and keeping it in a healthy state. It is, therefore, our responsibility to make sure that whatever budget we come up with is biased towards the poorest of the poor in our municipality. It is critical to the survival of our Municipality that we extend ourselves to reach those areas that were sidelined in the past, without neglecting those that were well looked after. We are attempting to strike a balance between the two with a slight bias towards lifting the previously disadvantaged communities out of the predicament that they find themselves in. While our intentions are to accelerate development and growth; while improving the quality of life of our people, we must keep in mind that every corner of the globe is affected by the economic turmoil that we are currently experiencing. The framework of this budget was informed by the unexpected downturn in the global economy, the realistic anticipation that attempts to accelerate economic growth, job creation and reduction of poverty maybe more difficult over the period ahead.

The 2009/2010 Budget

This budget is not only about controlling expenditure levels, even on constructive and necessary activities, it is also about promoting cost-efficiency, root out fraud and improved service delivery. Business Units have been asked to contain cost while increasing service delivery to our citizens, as we align ourselves to the National goals as defined by our Minister of Finance. The five enduring principles are:

Protecting the poor
Sustaining employment growth and expanding training opportunities
Building economic capacity and promoting investment

Addressing the barriers to competitiveness that limit an equitable sharing of opportunities
And, in doing these things we must maintain a sustainable debt level so that our actions today do not constrain our development tomorrow.

Mister Speaker, the Msunduzi Municipality has prepared a budget consistent with downturn of the global economy and anticipated recession targets that we expect to experience in 2009/2010. This budget is divided into two main categories namely, capital and operating budget.

It comprises:

R 2.2 billion Operating, and

R 327 million Capital

The new year of 2009 has already begun with great vigour and full of expectations and yet a lot of work to expedite service delivery so as to improve the lives of the people lies ahead. Msunduzi Municipality has made, and continues to make significant inroads in various aspects of service delivery. The construction of the city's central taxi depot recently is one of the landmark achievements, which the city prides itself of. On similar note the current construction of Harry Gwala stadium affirms Pietermaritzburg as the centre of major international events such as the Duzi Canoe marathon, Comrades marathon and also the mountain biking competition, which is scheduled to take place in the city. The stadium will also enhance the chances of the Pietermaritzburg city luring one of the big teams competing in the 2010 Soccer World Cup to use the facility as its main training ground.

As part of our city development working structures, we did not only manage to establish ward committees last year, but also we have taken the Full Council to local communities. This interaction enhances community participation in municipal affairs as well as to give the people the opportunity to interact with their officials as they voice their concerns and points of view.

The significance of the 2009/2010 Budget

This budget is being presented at a time when the country is gripped by election fever, and various political parties have embarked on fierce electoral competition. The political parties with an unwavering spirit and determination stage manifesto rallies or campaigns through the country so that voters can make good informed decisions about their party of choice. This budget addresses the goals we have set for this specific financial period. This has been accomplished by utilizing previous year's achievements and shortcomings as the barometer, as well as keeping in mind that the Municipality's performance and the ability to deliver service is key to our success.

In our attempt to do more with less, this budget aims to accommodate all sectors of our population giving substantial relief to a number of people ranging from the indigent to small business owners.

We have made the following concessions:

In terms of our current rates policy, the 2009/2010 Budget has been developed while holding rates at the current level, 20,200 households will be exempt from paying rates. In the current financial year 27,000 households were exempt from paying rates. These households will further be subsidized in respect of free basic services.
As a relief to the automatic qualification as an Indigent, some 20,200 customers receive 50 kWh of free electricity.
As a relief to the automatic qualification as an Indigent, Sewerage and Refuse services are provided free.
There is also provision of free water from 6 kilolitres.
Those who were boarded on medical grounds or receive medical grants will also benefit from this consideration. All those considerations are aimed at giving the poorest of the poor some tax relief.
Of particular concern is the National Treasury stand on Eskom bulk tariff increase. As last year, the indications are that NERSA is unlikely to be in a position to approve a revised electricity pricing structure before 29 June 2009 for the new tariff to be implemented as from 1 July 2009 as required in terms of section 42(5) of the MFMA. NERSA has granted a 27.5% increase to Eskom in bulk electricity tariffs.

This means that those who are indigents can now lead a decent life without huge debts emanating from rates, electricity and water bills.

In addition, the inability to accelerate economic growth is impacted by the personnel skills shortage which remains a critical concern in our country and especially in The Msunduzi Municipality. Our aim to address the skills shortage will be to focus on by our Skills Audit and Skills Development Program. These programs are aimed at improving the lives of ordinary people and will ultimately empower them with critical skills.

How the Integrated Development Plan informs the Annual Budget, and provides linkages between the political priorities at the national, provincial, district and local levels

The Integrated Development Plan (IDP) is the strategic document that serves as the guidance and rudder that informs the vision, strategic planning and management of decision-making in the Municipality. The IDP is a protracted undertaking in both its conception and implementation and is applied to achieve long-term goals so it has to be designed to such an extent that unforeseen circumstances that may perturb its implementation are anticipated with a reasonable and feasible contingency plan, within the budgetary ambit.

Public consultation is a main stay in “letting the people govern”. This mandate that communities must be consulted and be allowed to have input in designing their future is critical. This is in keeping with the

Constitution of this country and the Freedom Charter. Several public hearings were held and people gave their input and express their points of view.

In order to bring common understanding to various stakeholders and to demonstrate our commitment towards sustainable and integrated development and growth of our economy, society and environment; the IDP forms the basis of our development strategy and approach. The IDP then becomes our guiding development plan packaged and reflected according to the five national Key Performance Areas (KPA) and provincial KPAs. The national KPAs are used in this budget process to define the level and measure of development and performance of our City.

The IDP had identified the City's strategic priority issues in the order of priority as Basic Service Delivery and Infrastructure Investment, Good governance and Community Participation, Local Economic Development, Municipal Transformation and Institutional Development, Spatial Development framework (SDF) and Financial Viability and Management. In order to ensure the alignment and the efficacy of the administration, the Organization Structure was structured in such a way that it talks to the National Key Performance Areas as expounded in the Municipal system Act of 2000, the Access to Information Act, Municipal Finance Management Act 2003, as amended, and will provide the framework and springboard for defining the intervention strategies by the administration.

The Integrated Development Plan (IDP) is concise in its statement of development goals of the city. These goals give strategic guidance to the city's management to ensure that activities of the city are coordinated in an appropriate manner and financial decisions are well informed. The budget has been informed by the key objectives as expressed in the IDP, with the emphasis being on expediting delivery of basic services.

Service Delivery and Budget Implementation Plan (SDBIP)

The Municipal Finance Management Act requires that an SDBIP be prepared by municipalities as a strategic management tool to ensure that their budgetary decisions are aligned with IDP strategies. Ward information, project and service delivery are monitored by this instrument. Our biggest challenge continues to be our ability to align the budget with the IDP and the ability cascade the priorities and policies down through the organizational Service Delivery and Budget Implementation Plan (SDBIPs). Council is encouraging you to use this vital performance tool to measure our ability to do our job and ensure our commitment of service delivery to the community is met.

Mister Speaker, I would like to conclude this budget speech asking for the cooperation of everyone in making it possible for us to realize our dream of our municipality becoming a "metro" city. We may come from different political view points but there is one thing that has brought us together and that is our collective desire to improve the lives of our communities.

We would like to thank the Chief Financial Officer, Mr Bridgmohan and his team for preparing this budget and also for keeping us fiscally prudent throughout the year. We would also like to thank the Municipal Manager and the Deputy Municipal Managers and all of their staff for the work they do to

bring a better life to all the people of Msunduzi. Without the cooperation of all the people who work for the council this would not have been possible.

And last, but not least, my comrades and colleagues, the councillors, especially EXCO; we thank you all for your hard work and efforts. We have all been elected to serve our people, and mandated to provide them with a better quality of life. We believe we are fulfilling that mandate.

Thank you,

Zanele Hlatshwayo
MAYOR: Msunduzi Municipality

RESOLUTIONS

MSUNDUZI MUNICIPALITY

CORPORATE SERVICES BUSINESS UNIT

EXTRACT FROM UNCONFIRMED MINUTES OF THE FULL COUNCIL MEETING HELD ON WEDNESDAY, 27 MAY 2009

11. **CAPITAL AND OPERATING BUDGET 2009/2010 (3.1.2[2009/2010])**

Report dated 26 May 2009 of the Special Executive Committee meeting held on 25 May 2009.

(Committee Circular CC 128 of 2009)

(Note: the preamble to this item has not been included in this extract.)

It was **RESOLVED:**

(a) That the Operating estimates for 2009/2010, with agreed amendments, be approved, it being noted-

(i) That the increase in electricity tariffs be 27.5% generally and the increase in respect of large power users on Scale C be 27.5%, with effect 1 July 2009;
(ii) That the increase in water tariffs be 5%, with effect 1 July 2009;
(iii) That the increase in refuse tariffs be 7%, with effect 1 July 2009;
(iv) That the increase in sewerage tariffs be 7%, with effect 1 July 2009;
(v) That rate randages be set at 0.0075 in the Rand for Domestic and 0.0156 in the Rand for Non-residential properties.

(b) That the Capital Estimates for 2009/2010 be approved as follows:

-Council	R	201 427 600
-Municipal Infrastructure Grant	R	91 605 682
-Department of Transport	R	7 737 000
-Neighbourhood Development Partnership Grant	R	8 000 000
-Department of Mineral and Energy	R	12 000 000
-Integrated National Electricity Programme	R	6 573 000
Total	R	327 343 282

(c) That the following be approved, viz-

(i) The capital budget, operating budget and supporting policies of the Budget Document and

any appendices thereto.

(ii) The Rates Policy.

(iii) The Credit Control and Debt Collection Policy, Indigent Policy and Tariff Policy and any amendments thereto will be submitted to Council for approval once the alignment to the Rates Policy is complete.

(iv) The Msunduzi Municipality Tariffs for 2009/10 inclusive of the property rates, water, electricity and other municipal services.

(v) Changes to other budget related policies as per these recommendations.

(vi) The Municipal Manger be authorized to sign the Certificate of Compliance (Appendix E) that all allocations to this municipality from National and Provincial Government in terms of the Division of Revenue Act are included in the 2009/2010 budget for both revenue and expenditure as appropriate; and are adopted by Council and constitute the Budget of the Council for the 2009/2010 financial year as well as medium term (indicative) budgets for the 2010/2011 and 2011/2012 financial years.

(d) That it be noted that provision has been made in the operating estimates for:

(i) Provision for bad debts R10 million for 2009/2010.

(ii) Vacant Posts provision R15 million.

(iii) Cost of living allowance provision of 12%.

(iv) Overtime provision R33.5 million.

(e) A general rate assessed in terms of The Municipal Property Rates Act on the valuation of all rateable property within the area of its jurisdiction at 0.0165 cents in the Rand, and subject to:-

(i) **Residential Property**

As denoted in the valuation roll, a primary rebate of 0.0090 cents in the Rand.

(ii) **Indigent Owners**

All residential properties within the area of jurisdiction of The Msunduzi Municipality in the Valuation Roll with a value equal to or less than R130 000 shall receive a rebate of 100%; noting that other eligible persons for indigent recognition shall have to make application to the Deputy Municipal Manager: Financial Services.

(iii) **Vacant Land**

All Vacant Land properties within the area of jurisdiction of The Msunduzi Municipality in the Valuation Roll with a value equal to or less than R60 000 the rates levied shall receive a 100% rebate provided that no other additional rebates will apply to such properties and that the rebates shall exclude persons who own more than one property.

(iv) **Other Properties (as per schedule attached)**

A rebate on the valuation of rateable property of 0.0009 cents in the Rand.

(v) **Agricultural Properties**

A rebate on the valuation of rateable property of 0.0066 cents in the Rand.

(vi) **Public Service Infrastructure**

A rebate on the valuation of rateable property of 0.0050 cents in the Rand.

(vii) **Rural Communal Land, State Trust Land and Ingonyama Trust Land**

A rebate on the valuation of rateable property of 0.0165 cents in the Rand.

(viii) **Other Rebates-Aged Persons Rebate**

Occupier Owner Applicants: Females-60 years and over; Males-63 years and over:

Total income of the applicant, spouses and occupants from all sources must not exceed R2516.00 per month - 33.33%, or

Total income of the applicant, spouses and occupants from all sources must not exceed R2020.00 per month - 40.0% maximum.

(ix) **Public Benefit Organisations**

Currently part of a four year phase in and all Public Benefit Organisations will receive 100% rebate for this financial year.

(x) **Listed Buildings**

A rates rebate of 40 % after primary rebate will be applied on Listed Buildings.

(xi) **Penalties**

That with regard to rates penalties as approved by council, the interest penalty continue to be raised on the same basis as currently with the collection penalty being raised two months after the due date of the last monthly instalment.

(f) That with regard to the above tariffs and rates, the Deputy Municipal Manager: Financial Services cause the notices referred to in Section 75(A) of the Municipal Systems Act to be published in a newspaper and displayed at the City Hall, Chief Albert Luthuli Street, AS Chetty Building, the Edendale Office, and all other municipal offices determined by the Municipal Manager.

(g) That the Deputy Municipal Manager: Financial Services be authorized to publish the tariffs and charges and budget information on whatever basis is to the Council's best advantage.

(h) That the Deputy Municipal Manager: Financial Services sends copies of the notices to the Minister of Provincial and Local Government, as determined by the Act.

(i) That the contribution from Electricity to Rate and General is retained at 12.5% prior to the disclosure adjustment for the 2009/2010 financial year and the contribution from the Market Service to the Rate and General be maintained at 4.7%.

(j) That in terms of Section 13 and 14 of the Local Government: Municipal Property Rates Act 6 of 2004, the rates payable in respect of the 2009/2010 financial year ending 30 June 2010, shall be payable one month after the first publication of the notice issued in terms of Sections 13 and 14 of the aforementioned Act.

(k) That in terms of Section 26 of the Local Government: Municipal Property Rates Act 6 of 2004, all classes of ratepayers shall pay the aforementioned rates in respect of the financial year ending 30 June 2010 in twelve equal monthly instalments.

(l) That in terms of Section 27 of the Local Government: Municipal Property Rates Act 6 of 2004, the final date by which each monthly instalment is payable has been fixed as follows:

Instalment	Final Date
July 2009	31 August 2009
August 2009	30 September 2009
September 2009	31 October 2009
October 2009	30 November 2009
November 2009	31 December 2009
December 2009	31 January 2010
January 2010	28 February 2010
February 2010	31 March 2010
March 2010	30 April 2010
April 2010	31 May 2010
May 2010	30 June 2010
June 2010	31 July 2010

(m) That the due date for payment of the final monthly rates instalment be the thirty-first (31st) day of July 2010.

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EXECUTIVE SUMMARY

The 2009/2010 budget year recognizes the economic challenges and exciting opportunities for The Msunduzi Municipality and its residents while maintain a determination to move forward to provide a sustainable economic in which our residents can prosper and provide for themselves an improved quality of life.

The 2009/2010 Medium-Term Revenue and Expenditure Framework (MTREF) was compiled with a view to addressing key service delivery challenges focusing on strategic priorities developed by the Executive Committee (EXCO), all Business Units and other relevant stakeholders to ensure that the Municipality is committed to providing improved service delivery to it's citizens.

The development of the 2009/2010 Medium-Term Revenue and Expenditure Framework (MTREF) is focused specifically on securing a better life for the communities of Msunduzi Municipality. The budget is complied during a time when we are dealing with a global economic crisis and in some countries has already been deemed a recession.

Given the current economic crisis, the municipality has taken some very tough decisions in the course of preparing the 2009/2010 Budget and has given priority to:

- Managing all revenue streams, especially debtors;
- Protecting the poor from the worst impacts of the economic downturn; and
- Expediting spending on capital projects that are funded by conditional grants.

During the 2009/2010 Budget deliberation and discussions on the Municipality's revenue stream, much consideration was given to the direction to take in revising rates, tariffs and other charges. We have had to take into account the labour and other input costs of services provided by the municipality, the need to ensure financial sustainability, local economic conditions and the affordability of services; also taking into account the Municipality's indigents policy and increase in indigent population.

The Municipality is determine to minimize the effect of the rates and tariffs increases;
The Municipality is mindful of the indigent and poorer property owners, and of achieving an affordable proportion of rates revenue from residential and business properties.
We are carefully scrutinizing the application of different rate randages, appropriate rebates and discounts and do not intend to overburden our ratepayers.
We have worked diligently with the Business Units to reduce their expenditure level in line with the growing economic concerns.

Of particular concern is the National Treasury stand on Eskom bulk tariff increase. This 2009/2010 Budget includes a 27.5 % increase in electricity tariff for Eskom.

The proposed electricity tariff has been set at 27.5% for Large Power Users and 27.5% for Other Users. The tariffs for Water, Sewer and Refuse will remain at 5%, 7% and 7%, respectively and are below inflation and will provide relief to all consumers in the current economic climate.

In compliance with the Municipal Property Rates Act legislation, the Municipality is implementing the new property rates based on a new general valuation of property. Here again, in order to contain our tariffs to within affordable levels, given the change in the valuation method, the rates income has been capped at R 406 million. This is approximately a 9.4% increase on the total rates revenue of R 370 million collected in the last financial year. The basis of valuation has changed from rating land on market value and buildings on depreciated replacement cost to one of full market value. Due to the impending objection process to property valuations; the percentage per rand of value to be charged to ratepayers has been set at 0.00750 for domestic and 0.01565 for industry. However, due to the looming economic crisis and the anticipated impact, specifically on ratepayers and small business owners, it is our intention has been to keep the rates randage as low as possible. It is particularly important to assist local industries to avoid the need to retrench workers.

The equitable share allocation for the Msunduzi Municipality 2009/2010 Operating Budget has been increased by R12.7 million to R 199.8 million in comparison to the 2008/2009 allocation of R 187.1 million. General expenses have been increased by 4.3% and repairs and maintenance 6% of the 2008/2009 approved budget, respectively. As a result of the annualised effect of vacancies filled during 2008/2009, the use of temporary and agency staff, the year on year of employee related costs have been increased by 12%; Bulk purchases – Electricity is increased by 27.5% and Bulk purchases – Water increased by 4%. It is to be noted that there is no growth in electricity and water sales due to the economic downturn.

Resources have been allocated to assist in underdeveloped areas, maintain existing infrastructure and commit to strategic priorities in the Integrated Development Plan (IDP).

The Capital Budget has been set at R 327 million of which R 201 million is to be funded by way of external loans and reserves and the balance of 126 million by Grant funding.

This budget has been prepared in compliance with the National Treasury's Municipal Finance Management Act (MFMA) Circular 45 and in terms of the guidelines with the New Municipal Budget Regulations gazetted in January 2009.

Our commitment towards financial viability and sustainability has again resulted in an Unqualified Audit Report for 2007/2008 financial year. This has resulted in an Unqualified Audit Reports for the past two consecutive years.

How the Integrated Development Plan informs the Annual Budget, and provides linkages between the political priorities at the national, provincial, district and local levels

The Integrated Development Plan (IDP) is the strategic document that serves as the guidance and rudder that informs the vision, strategic planning and management of decision-making in the Municipality. The IDP is a protracted undertaking in both its conception and implementation and is applied to achieve long-term goals so it has to be designed to such an extent that unforeseen circumstances that may perturb its implementation are anticipated with a reasonable and feasible contingency plan, within the budgetary ambit.

Public consultation is a main stay in "letting the people govern". This mandate that communities must be consulted and be allowed to have input in designing their future is critical. This is in keeping with the Constitution of this country and the Freedom Charter. Several public hearings were held and people gave their input and express their points of view.

In accordance with the Municipal Structural Act, 198, as amended, every councillor was expected to consult with its constituency on a monthly basis, be it through ward committees or public meetings. The agenda of these meetings among other things was to address community complaints or needs, progress on projects and programs, contributing towards setting priorities for the municipality, etc. A record of these meetings (registers and minutes) are kept for ward development plans that will assist in the Projects Prioritization Process.

It is within the same principle of public consultation as required by law that the Municipality embarked on the public consultation process late November and the first week of December 2008 and beginning of April 2009 up to the week before National and Provincial elections. Those consultations are in addition to all consultations that were conducted by councillors in their respective wards, the Speaker/s and Mayor's offices. Through the City Mayor and members of the Executive Committee, Management Committee and councillors invited the citizens of the City of Pietermaritzburg to public meetings (Izimbizo) that were held in a all five Area Base Management (ABM) areas. On an overall scale, members of the public commended the City for improving the conditions of main roads that are cutting across few wards.

In order to bring common understanding to various stakeholders and to demonstrate our commitment towards sustainable and integrated development and growth of our economy, society and environment; the IDP forms the basis of our development strategy and approach. The IDP then becomes our guiding development plan packaged and reflected according to the five national Key Performance Areas (KPA) and provincial KPAs. The national KPAs are used in this budget process to define the level and measure of development and performance of our City.

The IDP had identified the City's strategic priority issues in the order of priority as Basic Service Delivery and Infrastructure Investment, Good governance and Community Participation, Local Economic Development, Municipal Transformation and Institutional Development, Spatial Development framework

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The Msunduzi Municipality's draft IDP for 2009/2010 review was rated at 79%, a (4%) four percent improvement from the 2008/2009 IDP and among the BEST 10 credible IDPs in the Province of KZN. This rate is above the 60% threshold required for best and credible IDPs. Both reports of the ratings of the draft and final IDPs are done by the Department of Local Government and Traditional Affairs for the Provincial Legislature and National Cabinet and any serious concerns are followed up, especially for high capacity municipalities.

Below are some of the assessments provided to the Municipality:

- Municipal Transformation and Institutional Development
  - To provide a detailed HR Strategy linking with a workplace skill plan
  - Some details must be provided on PMS and Annual Report

- Local Economic Development
  - Finalize the LED Plan
  - The LED Strategy should provide an analysis of comparative and competitive advantage

- Basic Service Delivery and Infrastructure Investment
  - The Municipality to develop a Service Delivery Plan with specific targets, backlog for energy, sanitation, refuse removal and finalize House Delivery Program;
  - Service Level Agreement (SLA) with Umgeni;
  - Develop Waste Water Management Plan and
  - Explore EPWP opportunities with Capital Investment Projects

- Financial Management and Viability
  - The municipality was commended

- Good Governance and Public Participation
  - Foster relationship with other governance structures and various sectors
  - Spatial and Environment Waste Development planning
  - Provide the spatial expression to ensure inclusion of environmental sustainability.

ANNUAL BUDGET TABLES

Table A1 Budget Summary;
Table A2 Budgeted Financial Performance (revenue and expenditure by standard classification)
Table A3 Budgeted Financial Performance (revenue and expenditure by municipal vote)
Table A4 Budgeted Financial Performance (revenue and expenditure)
Table A5 Budgeted Capital Expenditure by vote, standard classification and funding;
Table A6 Budgeted Financial Position;
Table A7 Budgeted Cash Flows
Table A8 Cash backed reserves / accumulated surplus reconciliation;
Table A9 Asset Management
Table A10 Basic service delivery measurement.

MUNICIPAL ENTITY

Though the Municipality has a Municipality Entity; it's funding is through a Grant from The Msunduzi Municipality. Therefore, the municipal entity's information is provided through this consolidated report and is reflected in the Grant information as a line-item for Safe City.

PART 2 – SUPPORTING DOCUMENTATION

OVERVIEW OF ANNUAL BUDGET PROCESS

Overview of Annual Budget, Service Delivery and Budget Implementation Plan

Earlier in the annual budget process the municipality developed an integrated planning, budgeting and performance management framework to focus attention on the need to build a consensus around setting policy priorities and strategies at the highest level of government and to guide senior management in its ability to integrate planning, budgeting and performance management.

The Msunduzi Municipality's 2009/2010 IDP/Budget Process began with a more rigorous approach to planning in an attempt to integrate the budget and IDP processes during the preparation of the 2009/2010 budget. Budgeting is not just an accounting exercise, but, must properly reflect the Council's policy priorities and strategies in developing the municipality.

It is essential that the Budget and IDP process must be managed as a single integrated process to produce multi-year integrated plans and budgets. Strategic plans must be aligned to budgets and capacity (individual and organisational). Furthermore, the IDP should be informing the entire budget, not just the capital budget, which has traditionally been the case.

National Legislation requires two plans to be produced, one that focuses on the development of the municipality and one on its financial aspects. These two plans are linked through the strategic objectives of the Council. The plan that focuses on the development of the municipality (IDP) expresses what the Council wants to achieve over the medium to long-term.

The plan that focuses on the financial aspects (Financial Plan) focuses on the allocation of financial resources approved in the budget and attached to these objectives; producing a medium to long-term strategy for the sustainability of the municipality.

The integrated planning, budgeting and performance management framework included a step-by-step framework:

Consultation – The budget development process should be preceded by a number of strategic and consultative processes within the municipality, beginning with the mayoral/executive committee and councilors. The process is consultative and the collective product of all within the municipality; must involve all the senior managers and, the process must be guided by the strategic priorities of the municipality.

Setting Policy Priorities and Strategies –The internal strategic consultation should commence around September/October, with the Mayor convening a meeting of the Executive Committee and senior managers. The purpose is to determine the priorities of the municipality for the coming budget, taking into account the financial and political pressures facing the municipality. It should consider any revisions to the current IDP and, in this case, the development of a new IDP. This process need not involve any non-executive councilors at this stage.

Prioritization – Policy priorities and strategies should not only be identified early in the process, but should also be prioritized according to its political priority, financial feasibility and service delivery output to the community and stakeholders.

Service Delivery Expectations – There is a differentiation between political and administrative roles when discussing service delivery. Politically, the Executive Mayor must develop policy and be responsible for outcomes; and Council must approve policy, and hold executive accountable for outcomes and output. Administratively, the Municipal Manager is accountable for implementation and outputs.

At the beginning of the planning process is an opportune time to articulate service delivery expectations from a political perspective. Discussions should focus on what ward councilors expect and what service delivery levels are achievable; given the constraints of the municipality.

A determination should be made as to which programmes will be provided and an examination of the demand for the services being produced by the specific programme decided upon, an appraisal of the existing services should be given and the performance of the specific programme during the past year,

Senior Managers should be able to identify the key challenges over the strategic plan period, and discuss any other challenges relevant to the policies, priorities and objectives of the specific programme.

Performance indicators should allow the public to form their own understanding of the contribution separate outputs make to the national policy objectives. It is imperative that the IDP/Budget alignment and accompanying SDBIP's transfer into service delivery commitments. Performance indicators should be agreed upon early in the process. Targets should be identified and outcomes should be broken down into clear outputs per ward and are shown in the budget.

Appropriate Allocation of Resources – Resources should be allocated based on service delivery expectations. It is important to re-examine how resources are allocated to determine if the allocation is adequate to fund the Mayor's policy priorities and strategies. The resources allocated to a specific priority will have a direct bearing on the service delivery outcome. Inputs (what we use to do the work) are the resources that contribute to the production and delivery of outputs. Outputs (what we produce or deliver) are the final products, or goods and service produced for delivery, but are based on inputs.

Mayor/Executive Committee (EXCO) Determine Budget Priorities – It should be noted at this stage that the Mayor/Executive Committee determine the budget priorities. The Mayor/Executive Committee set out clearly at the beginning of the strategic planning and budget preparation processes, what policy priorities will guide the development of the strategic plan and budget. The Mayor/Executive Committee is responsible for ensuring that these policy and priorities are aligned with National and Provincial policies and priorities.

Political Priorities – Strategic planning in the municipality should be guided by political priorities. Mayor and Executive Committee must take overall responsibility for developing a vision for the five-year period of their term of office and beyond, developing policy and obtaining approval for the planned outcomes of the Business Unit within the political collective.

After the budget priorities are determined, a major council strategic workshop should be convened involving the entire council (or at least the chairpersons of all council committees), as early as possible in October, to discuss the budget priorities.

The purpose of the strategic workshop is to gain understanding of budgetary pressures and to win the support of councilors to the budget priorities proposed by the mayor. The council is not expected to vote on such priorities and the Mayor should strive to only win the broad support of the Council. The actual priorities will be approved by the Council when it approves the budget and the IDP at the end of the process.

By clearly stating objectives and linking resource allocations to them, we are able to enhance public accountability and transparency. As a matter of practicality, unless there is a clear direction established for the future and this is expressed through clear objectives and targets, it is not possible to effectively develop a plan for the allocation of financial resources.

In addition, to have a successful budget development process, objectives must be clearly stated and targets must be identified. The development of a budget relies on the development of operational plans that outline how the objectives are to be achieved. Only then can an effective budget be produced that truly reflects the priorities of the Council.

Consultations with Community and Stakeholders

The budget priorities are tentative at this stage and offer a basis for consulting with the community and stakeholders. It may be necessary for the Mayor to revise the priorities following the consultation process. There are two external consultation processes envisaged in the MFMA and Municipal System Act:

The **first external consultation** process is informal, and open-ended, which begins around October and ends when the mayor tables the budget and revisions to the IDP around the end of March. This consultation process should includes the following:

- Public meetings with residents and small businesses in local communities – to identify and prioritise the greatest local needs (e.g. housing, water, electricity, recreation facilities, schools, clinics, streets and street lighting, refuse removal, social services and related issues, crime and functioning of local police stations, etc).
- The Izimbizo meetings worked so well with the Ward Councilors it should be added to the consultation structure as a standard meeting. It was a magnificent opportunity to obtain the views of the community and to gain an understanding of the issues in each ward.
- Meetings with key stakeholders (e.g. residents associations, NGOs, business organisations) – to identify community and business needs and concerns, including the level of municipal tariffs and charges.
- Consultation between the municipality any other municipalities, provincial and national departments and entities.

The **second external consultation process** is more formal and takes place after the tabling of the draft budget, when the Council convenes hearings on the draft budget and revisions to the IDP.

Review of the Integrated Development Plan

The Integrated Development Plan (IDP) process plan was approved at the Executive Committee (EXCO) meeting on 21st August 2008. The purpose of the process plan is to outline the operational plan for the development of the IDP for the Municipality. This process plan is based on the unique character and circumstances of Msunduzi Municipality, taking due cognizance of the process plan requirements as outlined in the Municipal systems Act (S34) and guidelines for Integrated Development Planning provided by National Department of Provincial and Local Government (DPLG).

The IDP should inform the budget and the IDP/Budget linkage of policy priorities and strategies should be developed to cascade down through the municipality. Clear direction for budget development should be set, politically and administratively, before Strategic Business Units can begin budget preparation.

The vital first step in the process plan is for "Management to agree on the Key Developmental Strategic Priorities that are in line with the organizational strategy to set the tone for the organizational strategic choices", based on the five Key Performance Areas: -

- Good Governance and Public Participation
- Financial Viability and Management
- Municipal Transformation and Institutional Development
- Service Delivery and Infrastructure Investment
- Local Economic Development

The 2009/2010 Budget preparation process began in November 2008 with the Management Committee (MANCO) and the relevant Business Units to develop a framework for the budget process and a way forward. Immediately afterwards, a joint strategic planning session between the Executive Committee (EXCO) and the Management Committee (MANCO) convened on 30th – 31st October 2008 at the Princess Grant Lodge, North Coast. The meeting focused on those public meetings that were held to report back to communities as part of the third and fourth Quarterly Performance Reports for progress made by the Municipality between July and September, 2008. Public consultations were then scheduled for October – December, 2008; April to June 2009 to invite members of the public to raise their concerns, needs, and / or recommendations. Several joint strategic planning sessions were held before and after the public consultations in a effort to include all state holders, including small business, private industry and the Chamber of Commerce.

Summing up the issues raised by communities at the Izimbizo according to National Key Performance Areas in order of Priority:

- Basic Service Delivery and Infrastructure Investment (80%)
    - Road maintenance and access roads

- Provisions of electricity
- Housing for informal dwellers and middle income earners
- Access to basic water
- Provision of clean sanitation

- Local Economic and Social Development (15%)
  - Lack of job creation opportunities and skill training for scarce skills and income generating initiatives
  - Development of community centers for social change
  - Sport development and facilities for a Playing City
  - Clinics for social wellbeing
  - Pre-school development for a Learning City

- Good Governance and Public participation (5%)
  - Political partisan in service delivery and nepotism in giving jobs
  - Empty promises by some managers and political leadership
  - Some people not happy with their councillors
  - Using outside companies that are not interested to employ local people
  - Lack of access to information and documentation

- Issues of Financial Management and Viability (0%) and Municipal Transformation and Institutional Development (0%) were not directly raised but indirectly on the basis that the municipal institutional arrangements and finances have to be sound to address the above issues.

A SUMMARY REPORT ON THE NEEDS THAT WERE EXPRESSED BY THE COMMUNITY AT THE IZIMBIZO HELD IN OCTOBER 2008:

A series of six (6) izimbizos were conducted across the 5 management areas of the Msunduzi Municipality in October and December, 2008. Minutes of concerns and needs raised at these meetings were recorded. A questionnaire was also administered to attendees in order to capture the needs/ concerns of those who did not get a chance to verbally express themselves. A total of 1 322 questionnaires were received .Question '8' of the questionnaire asked: "What improvements/ projects/ development/s would you like to see taking place in your area?" The responses to this question, together with the minutes, as was recorded at each imbizo, have been analyzed in order to determine a needs analysis within each ward (based on wards that were in attendance at the izimbizo).

A consolidation of the needs raised in the minutes and responses to question (8) of the questionnaire has resulted in the following needs analysis:

AREAS	INFRASTRUCTURE SERVICES	SOCIAL & ECONOMIC DEVELOPMENT	SOUND GOVERNANCE	SOUND FINANCES	INSTITUTIONAL TRANSFORMATION
Central Areas	141	30	1	6	
Imbali Areas	264	31	5		
Endendale Areas	183	127	7		
Northern Areas	277	31			
Vulindlela	221	69	4		
Missing Value	0	0	0		
TOTAL	**1086**	**288**	**17**	**6**	**0**

- Table (1) above reflects the respective needs that have been expressed per management area according to the 5 national Key Performance Areas (KPAs).
- This table reflects that the majority of the needs fall within the KPA of Infrastructure Services.
- Across all management areas, this is the dominant KPA, followed by Social & Economic Development and a small proportion of Sound Governance and Sound Finances respectively.

Amendments to the draft IDP according to the MEC letter for Local Government and Traditional Affairs

The Msunduzi Municipality's draft IDP for 2009/2010 review was rated at 79%, a (4%) four percent improvement from the 2008/2009 IDP and among the BEST 10 credible IDPs in the Province of KZN. This rate is above the 60% threshold required for best and credible IDPs. Both reports of the ratings of the draft and final IDPs are done by the Department of Local Government and Traditional Affairs for the Provincial Legislature and National Cabinet and any serious concerns are followed up, especially for high capacity municipalities.

Below are some of the assessments provided to the Municipality:

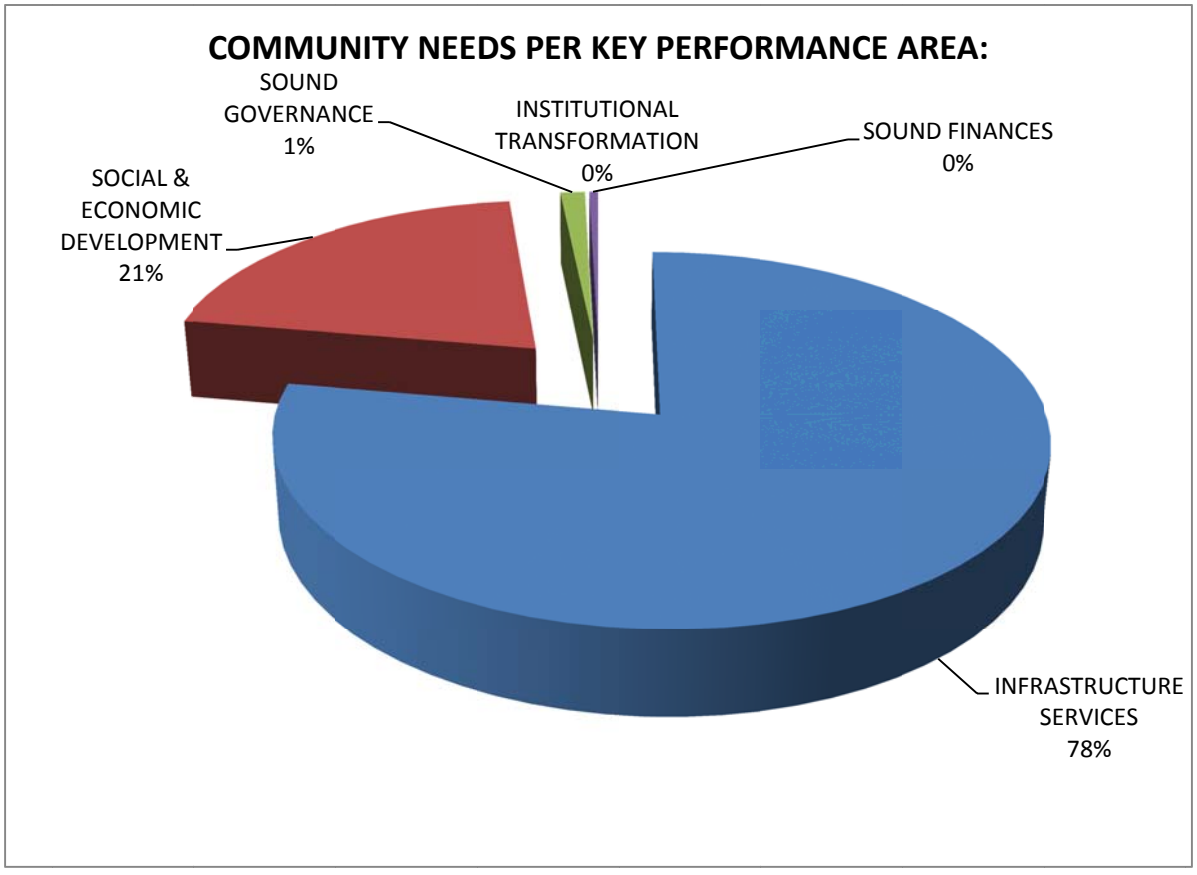
- Municipal Transformation and Institutional Development
  - To provide a detailed HR Strategy linking with a workplace skill plan
  - Some details must be provided on PMS and Annual Report
- Local Economic Development
  - Finalize the LED Plan
  - The LED Strategy should provide an analysis of comparative and competitive advantage

- Basic Service Delivery and Infrastructure Investment
  - The Municipality to develop a Service Delivery Plan with specific targets, backlog for energy, sanitation, refuse removal and finalize House Delivery Program;
  - Service Level Agreement (SLA) with Umgeni;
  - Develop Waste Water Management Plan and
  - Explore EPWP opportunities with Capital Investment Projects

- Financial Management and Viability
  - The municipality was commended

- Good Governance and Public Participation
  - Foster relationship with other governance structures and various sectors
  - Spatial and Environment Waste Development planning
  - Provide the spatial expression to ensure inclusion of environmental sustainability.

Community needs, expressed per KPA, are graphically depicted as follows:



The report or specific needs per ward was considered during the budget and IDP process for 2009/ 2010, in terms of community needs as directly expressed by the community members themselves during the izimbizo that were held in November and December, 2008.

Detail the consultation process with the community and key stakeholders and present a summarised list of community hearing and key stake holders consulted:

PROGRAMME FOR IZIMBIZO 2009

DATE	IZIMBIZO	VENUE	TIME	PROJECT UNVEILED	VENUE	TIME
Tuesday, 14 April 2009	Central	City Hall	18:00	—	—	—
Wednesday, 15 April 2009	Imbali	Imbali - State 1 Sportsground	16:00	Electricity	Kwa-Nyamazane Ward 13	14:00
Thursday, 16 April 2009	Northern Area (29,34 & 35)	Copesville Sportsground	16:00	Sewer	Site 11 - Ward 32	14:00
Friday, 17 April 2009	Northern Area (28, 30, 31 & 32)	Truro Hall	18:00	—	—	—
Saturday, 18 April 2009	Vulindlela	Eshowe Sportsground	12;00	Water & Sanitation	Ward 4	10:00
Sunday, 19 April 2009	Edendale	Caluza Sportsground	12:00	Road	Georgetown	10:00

OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH INTEGRATED DEVELOPMENT PLAN

The development of the 2009/2010 Budget follows an exhaustive process of aligning and balancing the council's vision with the funds available for the next financial year. Particular attention has to be given to not only maintaining existing infrastructure but of also reducing the service backlogs in formerly marginalised communities. Other factors that influence the budgetary process are sustainability, alignment with national and provincial priorities and alignment with municipality's medium term revenue and expenditure framework (MTREF) as expressed by the Integrated Development Plan (IDP).

Msunduzi Municipality's Budget/Integrated Development Plan (IDP Review process began with the development and approval in August 2008 of the "IDP Process Plan". This plan identifies the timeframe, process and activities to be entered into during the budget planning process. It provides a framework for the formulation of the budget and IDP review. As stipulated by MSA section 34, the Mayor tables in Council a time schedule outlining key deadlines for: preparation, tabling and approving the budget; reviewing the IDP and budget related polices and consultation process at least 10 months before the start of the budget year. The culmination of this IDP Process Plan clarifies and commits all stakeholders on the process to be followed in reviewing the IDP as well as formulating the budget.

The amendment to the Municipal Systems Act (MSA) and Chapter 4 of the MFMA require that a revised IDP be adopted at the time of adopting the budget. In compliance with this legislative requirement, the 2009/2010 Integrated Development Plan (IDP) and 2009/2010 Annual Budget were tabled in Full Council on 31 March 2009 and it is anticipated that both documents will be adopted by Full Council at the end of May 2009. The process leading to the adoption of the 2009/2010 was, therefore, incorporated into one process, together with the process of approving taxes, levies and user charges. This has ensured credible plans and budgets that are realistic and implementable.

OVERVIEW OF BUDGET-RELATED POLICIES

The budget-related policies of Msunduzi are developed with an aim to provide services to its citizens that are of high quality and financially stable in its approach. The policies are designed to keep the municipality in a fiscally sound position in the short and long term and ensure successful financial planning, spending and outcomes.

The following budget-related policies have been approved by council, or have been reviewed / amended and / or are currently being reviewed / amended in line with National Guidelines and other legislation.

CREDIT CONTROL AND DEBT COLLECTION POLICY

The credit control and debt collection policy was approved by Council May 2008. Currently the credit control and debt collection policy is under review and will be aligned with the rates policy, to be approved by Council 27 May 2009.

RATES POLICY

Section 3(1) of the local Government Municipal Property Rates Act, 2004 (Act 6 of 2004) and section 62 (1)(f) of the Municipal Finance Management Act (MFMA) determines that a municipality must adopt and implement a rates policy on the levying of rates on rateable properties. The new rates policy was approved by Executive Committee (EXCO) on December, 2008 and complies with the Municipal Property Rates Act; and the rates policy will be approved by Council 27 May 2009.

TARIFF POLICY

In terms of S74 (1) of the Municipal System Act, the Council adopted a tariff policy on 25 May 2005. The objectives of the policy which is consistently applied to all tariffs is to ensure that:

- The tariffs of the Municipality comply with the legislation prevailing at the time of implementation;
- The municipal services are financially sustainable, affordable, and equitable;
- The needs of the indigent, aged and physically challenged are taken into consideration.

The policy is developed in line with principles as outlined in the municipal Systems Act.

WATER POLICY

The Msunduzi Municipality's water policy was approved by Council on May, 2008 and provides for: water tariffs, water connection charges, accounts and arrears, disconnections and illegal connections.

The Council's tariffs are affected by the following factors:

- Bulk purchase cost: Umgeni Water
- Unaccounted for Water
- Debtors collection rate
- Cost of Free Basic Water

There are no amendments to the current policy during the period under review.

SUPPLY CHAIN MANAGEMENT POLICY

The current Supply Chain Management Policy was approved by Council during 2008, and reflects and represents the context of a specific government policy that finds expressions within the provisions of the Municipal Finance Management Act of 2003. The principal objectives of the policy are to provide, promote, and implement theoretical guidelines, governing processes and procedures within the supply chain management.

There are no amendments to the current policy during the period under review.

INVESTMENT / BORROWING POLIICIES

An Investment Framework policy and Guidelines as required by the Municipal Finance Management Act and in conformity with the Municipal Cash Management Regulations has been adopted by Council on 30 November 2008. The Msunduzi Municipality has also prepared a borrowing policy in compliance with the Municipal Finance Management Act and the Municipal Regulations on Debt Disclosure.

ADJUSTMENT BUDGET PROCESS

The adjustments budget process is governed by various provisions in the Municipal Financial Management Act (MFMA) and is aimed at instilling and establishing an increased level of discipline, responsibility and accountability in the financial management practices of municipalities.

To ensure compliance with Section 28 of the MFMA, procedures were formulated with regards to the transfer of funds and the adjustment budget reporting.

FINANCIAL STRATEGY

Financial sustainability and viability remain the key principles in the financial planning process and, to ensure compliance with the Municipal Financial Management Act: a five-year financial strategy has been developed by the municipality and will be adopted by Council.

The purpose of the Financial Strategy is to provide measures to ensure the generation of adequate cash resources on a sustainable basis to:

- Provide basic infrastructure and services to the community;
- Enable the Msunduzi Municipality to achieve its vision of a high quality of life for all citizens in the city;
- Create an environment for business growth and investments conducive to economic development, and;
- Ensure financial sustainability of the municipality into the future.

The implementation of this strategy will contribute considerably towards ensuring financial viability and sustainability of the organization into the future.

BUDGET POLICY

Pursuant to the implementation of financial Best Business Practise, the Councillors of Msunduzi Municipality will be asked to formally adopt the Draft Budgetary Policy during this current budget process. This policy will be utilized in addition to all National Treasury Guidelines, Municipal Finance Management Act and all relevant promulgated laws. This policy will be used to support the municipality's budgetary process, provide guidance for prudent fiscal management, and acquisition of sustainable resources. Certain portions of the MFMA are paraphrased or referenced when necessary. Subsequent amendments and detail application of this policy must comply with the Municipal Finance Management Act, Municipal Systems Act, and all applicable laws. This policy document is intended to establish an effective and compliant financial framework to assist Msunduzi Municipality in the development and proper administration of the budget process.

In terms of the Municipal Finance Management Act, No.56 of 2003, Chapter 4 on Municipal Budgets, Subsection (16)(1), states that the council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year. According to subsection (2) of the Act concerned, in order to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year. This policy must be read, analysed, explained, interpreted, implemented and understood against this legislative background. The budget plays a critical role in attempt to realize diverse community needs. Central to this, the formulation of a municipality budget must take into account the government's macro-economic and fiscal policy fundamentals. In brief, the conceptualization and the operationalisation of the budget must be located within the national government's policy framework. This budget policy should be read in conjunction with provision of Municipal Budgeting, MFMA, Act 56 of 2003 and the Municipal Systems Act. Following specifically the structured requirements in the New Municipal Budget & Reporting Regulations.

The objective of the budget policy is to set out:

- The principles which the municipality will follow in preparing each medium term revenue and expenditure framework budget,
- The responsibilities of the mayor, the accounting officer, the chief financial officer and other senior managers in compiling the budget
- To establish and maintain procedures to ensure adherence to Msunduzi Municipality's IDP review and budget processes.

Budgeting principles will outline the following:

- The municipality shall not budget for a deficit and should also ensure that revenue projections in the budget are realistic taking into account actual collection levels.
- Expenses may only be incurred in terms of the approved annual budget (or adjustment budget) and within the limits of the amounts appropriated for each vote in the approved budget.
- Develop programmes that will be linked to pre-determined priorities.
- Develop Key Performance Indicators to measure the performance of the municipality and ensure service delivery.

OVERVIEW OF BUDGET ASSUMPTIONS

GENERAL RECESSION OUTLOOK AND THE IMPACT ON MUNICIPAL ACTIVITIES

For the first time in many years the South African economy is showing signs of strain of the recession experienced in the west and there is greater uncertainty in the slowing international demand, which is certain to bring tougher times ahead.

Given the current economic crisis, the municipality has taken some very tough decisions in the course of preparing the 2009/2010 Budget and has given priority to:

- Managing all revenue streams, especially debtors;
- Protecting the poor from the worst impacts of the economic downturn; and
- Expediting spending on capital projects that are funded by conditional grants.

During the 2009/2010 Budget deliberation and discussions on the Municipality's revenue stream, much consideration was given to the direction to take in revising rates, tariffs and other charges. We have had to take into account the labour and other input costs of services provided by the municipality, the need to ensure financial sustainability, local economic conditions and the affordability of services; also taking into account the Municipality's indigents policy and increase in indigent population.

The Municipality is determine to minimize the effect of the rates and tariffs increases;
The Municipality is mindful of the indigent and poorer property owners, and of achieving an affordable proportion of rates revenue from residential and business properties.
We are careful scrutinizing the application of different rate randages, appropriate rebates and discounts and do not intend to overburden our ratepayers.
We have worked diligently with the Business Units to reduce their expenditure level in line with the growing economic concerns.

We already realize that we are faced with an uphill battle while trying to address some of the difficulties that we are facing, namely:

The number of people facing entrenchment will increase and this will affect their ability to pay rates, electricity, and water; which in turn will negatively affect the Municipality's revenue stream;
We anticipate an increase in the number of households that will qualify to receive rates discounts and free basic services in terms of the municipality's indigents policy;
Companies will be closing and the need for municipal services will decrease; which will negatively affect the Municipality's revenue stream;
The possibility of increases in the provisions for bad and doubtful accounts is almost a certainty.

KEY FINANCIAL INDICATORS

The parameters and assumptions were determined at the initiation of the budget process to support strategic service delivery goals and targets. The Municipality's budget is controlled, not only by the dictates of National Treasury guidelines and recommendations on annual budget increases, but also by the National Electricity Regulator of South Africa (NERSA), the authority that regulates electricity tariff increases. Municipal service delivery is also affected by amount of grants and subsidies provided the Municipality on an annual basis.

Key budget parameters used in developing the 2009/2010 Operating Budget are:

Inflation Rates – CPIX : 6.2%

Description **Revenue**	2008/2009	2009/2010
Tariff Projections		
Electricity - Large Users	9%	27.5%
Electricity - Other Users	12%	27.5%
Water	5%	5%
Sewerage	7%	7%
Refuse	7%	7%
Rates Randage - Domestic	-	0.0075
Rates Randage – Non-Residential	-	0.0156
**** No Growth in Electricity & Water Sales***		

Description **Expenditure**	2009/2010 **Increase**
Employee Related Cost	12%
Overtime	0%
General Expenses	4.3%
Repairs and Maintenance	6%
Bulk Purchases - Electricity	27.5%
Bulk Purchasees - Water	4%
Vacant Post Funding	15 million

It should be noted that the methodology and basis for forecasting budget projections has been included at 7%. This assumption seems reasonable give the current economic conditions.

Of particular concern is the National Treasury stand on Eskom bulk tariff increase. As last year, the indications are that NERSA is unlikely to be in a position to approve a revised electricity pricing structure before 29 June 2009 for the new tariff to be implemented as from 1 July 2009 as required in terms of section 42(5) of the MFMA. The Msunduzi Municipality has complied with National Treasury advice to

municipalities to budget for a 27.5% increase in bulk electricity tariffs when preparing their tabled and adopted budgets. We were also advised of a possible 34% increase for Eskom.

SIGNIFICANT CHANGES IN ASSUMPTIONS SINCE THE LAST APPROVED ANNUAL BUDGET

In compliance with the Municipal Property Rates Act legislation, the Municipality is implementing the new property rates based on a new general valuation of property. However, our intent is to cap its rates at R 406 million. This is approximately a 9.4% increase on the total rates revenue of R 370 million collected in the last financial year. The basis of valuation has changed from rating land on market value and buildings on depreciated replacement cost to one of full market value. Due to the impending objection process to property valuations; the percentage per rand of value to be charged to ratepayers has been set at 0.00750 for domestic and 0.01565 for industry. However, due to the looming economic crisis and the anticipated impact, specifically on ratepayers and small business owners, our intention has been to keep the rates randage as low as possible. It is particularly important to assist local industries to avoid the need to retrench workers.

In terms of our current rates policy, the 2009/2010 Budget has been developed while holding rates at the current level, 20,200 households will be exempt from paying rates. In the current financial year 27,000 households were exempt from paying rates. These households will further be subsidized in respect of free basic services.

As a relief to the automatic qualification as an Indigent, some 20,200 customers receive 50 kWh of free electricity.
As a relief to the automatic qualification as an Indigent, 20,200 receive free Sewerage and Refuse.
There has been no change in the provision of free water from 6 kiloliters.
Those who were boarded on medical grounds or receive medical grants will also benefit from this consideration. All those considerations are aimed at giving the poorest of the poor some tax relief.

CREDIT RATING OUTLOOK

A credit rating is an opinion of a municipality's creditworthiness. This opinion is issued with a future focus on the ability and willingness of a debt issuer (a borrower) to repay its obligations in full and on time. The opinion is expressed through rating symbols and each symbol has its own definition.

The Msunduzi Municipality has managed to maintain its excellent credit rating of A1- (short term) and A (long term) for a sixth (6) year succession as published by the Global Credit Ratings Company credit rating panel. This short and long term ratings are amongst the highest ratings accorded to local authorities in South Africa and naturally it will provide the Municipality with a sound financial platform to meet its economic challenges and service delivery targets.

In conclusion, the rating report reflects a positive outlook for the Msunduzi Municipality in the future.

INTEREST RATES FOR BORROWING AND INVESTMENT OF FUNDS

The Msunduzi Municipality has established a sound financial profile, prudent policies and excellent credit ratings over the past few years. This puts the municipality in a positive position to borrow long term loans for much needed service delivery projects at favourable rates, subject to the credit rating being maintained. This is a critical position to protect whilst the municipality faces many challenges; including an ever increasing mandate for service delivery, huge infrastructure backlogs, aging infrastructure, increase demands for housing and integrated human settlements. Therefore the borrowing needs are soaring and constantly increasing from year to year.

Investments made with various financial institutions are strictly in compliance with Municipal Finance Management Act (MFMA) and the investment Regulations.

The investment returns achieved are as follows:

Investment Returns	30 June 2007 %	30 June 2008 %
Average rate of return on investments	9.02	11.72

The Msunduzi Municipality by its prudent investment policies, has been in a position to generate above market related returns on its investments, ensuring at all times the safety of capital with the lowest possible risk.

EFFORTS TO IMPROVE REVENUE COLLECTION

Since July 2005, Msunduzi Municipality has billed its consumers monthly for services in the form of a consolidated bill. All annual residential and commercial ratepayers have been converted to a monthly rate payers. It recent years, there has been a trend in the municipality to accumulate increase debt based on the consumers inability or reluctance to pay for services rendered. Outstanding debt increased from R 432 million in 2006/2007 to R 547 million in 2007/2008, a R 115 million increase. In 2007, the municipality executed a write-off of R 109 million, of which, R 53 million was indigent debt.

Strategy to Reduce Debtors

The following priorities are included in the 2009/2010 Budget in an attempt to reduce debtors:

- **Improve quality of billing information**
    - Implementation of a new Electronic / remote meter reading system
- **Ensure performance measurement criteria**
    - for future outsourced debt collection
- **Fully implement the Credit Control Policy**
    - for Government Departments
- **Relocate Revenue Protection/Enhancement Unit**
    - From ISF to Finance
- **Major Review of Policies (2009/2010)**
    - Credit Control Policy
    - Indigent Support Policy

COLLECTION RATES FOR EACH REVENUE SOURCE AND CUSTOMER TYPE

The collection rate is the cash received by the municipality from consumers expressed as a percentage of the amount billed. The average monthly collection rate and projections for 2008/2009 are listed below:

Collection Rates	Average 2007/2008	Projections 2008/2009
Rates		
Electricity:		
- Bulk Purchases		
- Domestic Consumers		
Water		
TOTAL	**102.65%**	**98.0%**

Rates

The Msunduzi Municipality has entered productive negotiations with Government departments and progress has been made with collection of old debts; these successful negotiations are reflected in the 2008/2009 projections.

Electricity

Financial Services – Consolidated Billing staff has been required to focus on large debt owed by Government departments and businesses; due to successful negotiations, a higher collection rate is anticipated.

Water

Increase focus is placed on debt owed by Government department and business, a higher collection rate is anticipated.

PRICE MOVEMENTS ON BULK PURCHASES

At last year, the indications are that NERSA is unlikely to be in a position to approve a revised electricity pricing structure before 29 June 2009 for the new tariff to be implemented as from 1 July 2009 as required in terms of section 42(5) of the MFMA. The Msunduzi Municipality has complied with National Treasury advice to municipalities to budget for a 25% increase in bulk electricity tariffs when preparing their tabled and adopted budgets. The Municipality was also advised of a possible 34% increase for Eskom. This approved 2009/2010 Budget includes an anticipated increase of 27.5% increase in bulk electricity tariffs for Eskom.

It has been determined that the Municipality should expect an increase in bulk water purchases from Umgeni Water for the next year. Therefore, it has been projected that the tariff for 2009/2010 will increase by 4% for bulk water purchases.

AVERAGE SALARY INCREASES

A combination of anticipated negotiations and potential settlement at the bargaining council coupled with the annualised effect of vacancies filled during 2008/2009, the use of temporary and agency staff, the cost of living increase in employee related costs is projected at 12%. Negotiations are currently on-going and there has no finalisation or permanent decisions.

DEMAND FOR SERVICES

The Msunduzi Municipality anticipates building 2,500 housing units per annum and understands that this will impact on service delivery and on other developmental issues. The demand for basic services, i.e. electricity, water, sanitation, refuse removal and cleansing would increase accordingly. These increased housing demands are reinforced by increased demand for infrastructure development, including the construction of roads and storm water drainage. In addition, the demand for free basic services is increasing on a year to year basis due to increasing housing developments around the municipal area. Further, the roll out of water services to all consumers together with the extension of water borne sewage infrastructure to replace conservancy tanks will place additional demands on services.

ABILITY OF THE MUNICIPALITY TO SPEND AND DELIVER ON THE PROGRAMS

The Msunduzi Municipality has improved its ability to spend and deliver on its programmes in its area of jurisdiction. There continues to be an area for improvement and will be a major focus in 2009/2010.

The 2008/2009 capital project spending is estimated to progress to a rate of 87% of the capital budget. The achievements and rate of spending during the first half of 2008/2009 provide some confidence that this level of spending can be achieved.

It is anticipated that over 98% of the Operating Budget will be expended in the 2008/2009 financial year.

FUNDING THE BUDGET

FISCAL OVERVIEW

2007/2008 ACTUAL AND 2008/2009 PROJECTED FINANCIAL PERFORMANCE

The Msunduzi Municipality continues to display a sound financial profile and high liquidity levels, which is mainly attributable to:

- Balanced budgets being funded from current financial years' revenue. Prior year's surpluses have not been used to support the operating budget.
- The municipality operates within its annual budget, as approved by Council.
- The municipality maintains a positive cash and investments position.
- Improve revenue collection rate of 102.65% (average).

OPERATING BUDGET

The 2007/2008 financial year expenditures in the amount of R 1.7 billion was fully funded from the municipality's revenues and grants and subsidies from National and Provincial Governments. A similar or better performance is expected for 2008/2009. For both financial years, the revenue allocated was sufficient to cover the operating expenditure, with no reliance placed on the prior year's surpluses.

CAPITAL BUDGET

The capital budget totalled R 329 million in 2008/2009. This was funded by National and Provincial grants. The capital budget includes:

Business Unit	Council Funding	Department of Mineral & Energy	Department of Transport	Neighborhood Development Partnership Grant	Integrated National Electricity Program	Municipal Infrastructure Grant	Councilors Projects	TOTAL
City Corporate	15,772,600							15,772,600
Financial Services	925,000							925,000
Community Services	17,105,000					17,348,080	19,684,640	54,137,720
Development Services	11,730,000			8,000,000				19,730,000
Infrastructure Services	105,500,000	12,000,000	7,737,000		6,573,000	74,257,602	19,300,000	225,367,602
Corporate Services	11,410,000							11,410,000
TOTAL	162,442,600	12,000,000	7,737,000	8,000,000	6,573,000	91,605,682	38,984,640	327,342,922

ALLOCATIONS OR GRANTS BY THE MUNICIPALITY

AND

EXPENDITURE ON ALLOCATIONS AND GRANT PROGRAMMES

SOCIAL, ECONOMIC AND DEMOGRAPHIC STATISTICS AND ASSUMPTIONS

&

HOUSEHOLD BILLS

INVESTMENT PARTICULARS BY MATURITY AND TYPE

&

BORROWING

COUNCILLORS

AND

BOARD MEMBER ALLOWANCES

AND

EMPLOYEE BENEFITS

MONTHLY TARGETS

FOR

REVENUE, EXPENDITURE AND

CASH FLOWS

CAPITAL EXPENDITURE DETAILS

MUNICIPAL MANAGER'S QUALITY CERTIFICATION

An annual budget and supporting documentation must be covered by a quality certificate in the format described below:

QUALITY CERTIFICATE

I……., Municipal Manager of ……..(name of municipality), hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name_____

Municipal Manager of _____

Demarcation Code of Municipality_____

Signature_____

Date_____